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S E C R E T SECTION 01 OF 03 CARACAS 001241

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ENERGY FOR CDAY AND ALOCKWOOD
NSC FOR DTOMLINSON AND JSHRIER

E.O. 12958: DECL: 01/12/2017
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: CONOCOPHILLIPS CLOSE TO EXITING VENEZUELA

REF: A. CARACAS 1157

[1](#)B. 5/21 FLATT-VENEZUELA DESK E-MAIL

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (S) SUMMARY: ConocoPhillips (CP) has been unable to reach agreement with the BRV on the terms for migrating its share of two strategic associations (Petrozuata and Hamaca) and a profit sharing agreement (Corocoro) to a PDVSA-controlled joint venture. Principal sticking points are compensation for lost value, governance structures, and the lack of an exit clause. Assuming CP does not sign a memorandum of understanding (MOU) and conversion contract on or before June 26, it will seek an amicable solution that provides it with adequate compensation for its lost investments. Chevron claims it has still not decided if it will stay or go but has hinted that it will stay. ExxonMobil(XM) has sold its downstream interests to the Venezuelan firm Venoco. As reported in Reftel A, XM also appears ready to exit. END SUMMARY

AGREEMENT HIGHLY UNLIKELY

[1](#)2. (S) CP Latin America president Roy Lyons (strictly protect throughout) met with the Economic Counselor and Petroleum Attache on June 21 to provide an update on CP's negotiations with the BRV (Reftel B). He began the meeting by stating CP has been unable to reach an agreement with the BRV regarding the terms of the migrations. The sticking points are compensation for lost value, governance structures, and the BRV's refusal to accept an exit clause.

[1](#)3. (S) CP is unwilling to accept the BRV's proposals for governance of the joint ventures because they would allow PDVSA to commit the joint ventures to major investment projects without CP having a say in the matter. Lyons also stated business plans have not been approved for any of the

projects. As a result, if CP agreed to migrate to the joint ventures, it would be agreeing to abide by the terms of non-existent business plans. Lyons emphasized that CP will not sign the BRV's proposed MOUs and conversion contracts for the projects unless its concerns are addressed.

14. (S) Lyons noted the BRV would like to have all of the migration issues with the respective oil companies settled by this weekend. The companies were originally given until Tuesday, June 26 but the BRV has appeared to move the deadline up. Rumor has it the deadline was advanced so as not to conflict with the opening of the Copa America on that date.

NEXT STEPS FOR CP

15. (S) Lyons said there is a possibility CP will sign some sort of agreement that states both parties are willing to continue negotiations. He stated further negotiations between CP and the BRV will focus on compensation. CP has provided the BRV with a compensation proposal. Lyons added CP is not willing to assume any of the strategic associations' debt. He stated he would be meeting with Energy Vice Minister Mommer on June 21 to discuss compensation issues.

16. (S) Lyons said CP will seek to have all of its remaining expats outside of the country on June 26. Lyons will be the only CP expat employee in country on that date. Lyons has also requested and secured a second passport in case the BRV takes his passport as a negotiating ploy.

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17. (S) Assuming CP does not sign the MOU and conversion contracts, it will continue to seek an amicable solution to the situation. Lyons stressed CP is willing to play hardball if it is forced to do so. Lyons noted the BRV has also adopted an amicable tone so far. He mentioned BRV officials have expressed concern in meetings that the USG could attach Venezuelan assets in the U.S., particularly Citgo assets, in the event of a dispute. Lyons said he did not believe the BRV would reach any agreement with CP on compensation until the latter part of July. According to Lyons, the BRV is focusing its attention on companies that it thinks will agree to its migration terms.

18. (S) CP will maintain an office in Caracas for approximately one year to wrap up operations if it does not migrate its projects. Lyons would remain in Venezuela during that time. CP's two offices in Puerto La Cruz will be closed by December. He later added that CP is close to resolving its two outstanding tax disputes with the Venezuelan tax authorities.

CHEVRON

19. (S) Petatt met Chevron Latin America president Ali Moshiri (strictly protect throughout) on June 20 to discuss Chevron's position regarding migration. Moshiri had just returned from two days of meetings at Chevron's headquarters. He claimed Chevron has not reached a final decision but that it was closely watching what CP did. However, he later stated Venezuela was too rich a prize for international oil companies to abandon. Both Moshiri and Lyons stated their companies were not talking to each other despite the fact that they are partners in Hamaca.

110. (S) Moshiri also stated the BRV had stated it was advancing the deadline for the termination of migration negotiations. He said Chevron was concerned the BRV wanted to force the companies to participate in a public signing ceremony this weekend. Moshiri opined that the BRV would not

show any flexibility in negotiations since the proposed conversion contract was a framework agreement or skeleton for the final terms of the migration. The BRV cannot change the terms of the conversion contract for one company without changing it for all of them.

XM SELLS LUBRICANTS AND SERVICE STATION INTERESTS

¶11. (C) XM executives called Petatt on June 22 to report that XM has signed a sales and purchase agreement with Veneco, a Venezuelan company for its downstream business, which includes lubricant and service station interests. XM owns a 50% stake in C.A. Nacional de Grasas Lubrificantes (CANGL), which manufactures Mobil and Veneco branded lubricants among others. Mobil purchased a 50% stake from Veneco in the lubricant manufacturer in 1994. XM also sold the rest of its downstream business to Veneco. Although it does not own any service stations, a number of service stations are XM flagged. In addition, XM has a wholesale downstream business that was part of the deal.

COMMENT

¶12. (S) At this point, it appears that both XM and CP will be exiting Venezuela. We expect negotiations with the BRV for compensation to drag out for months. It is not in the BRV's or the companies' interest to go to arbitration. Although many industry insiders thought CP would capitulate

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in the final hours, we note XM executives repeatedly told us that XM and CP's positions were virtually identical (Reftel).

It also appears that the companies are no longer working together. XM stated the companies were trying to come up with common language for the MOU (Reftel). However, when Petatt raised the issue with Lyons, he stated the companies have gone their separate ways due to differences in strategies. We have been in telephone contact with XM throughout the week and they have stated their position regarding migration has not changed. All three companies have promised to keep in touch with the Embassy as events unfold.

BROWNFIELD